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vesting Moroccan citrus

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Taiwan—Billion Dollar U.S. Market?

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Harvesting citrus fruit in Morocco, one of the several EC trading partners benefiting from special concessions on their citrus and citrus juice exports to the Community. See article beginning on page 6.

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Taiwan: A $1 Billion Market For U.S. Farm Goods by 1980?

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FARM EXPORTS from the United States to Taiwan could reach the $1 billion mark in—or even before—1980, despite Taiwan's efforts to diversify its sources of supply. Taiwan is already one of this country's best customers for farm products, ranking third in the Far East behind Japan and South Korea. Unable to greatly expand its own production, Taiwan is a steadily expanding market for farm products that holds considerable promise for U.S. exports.

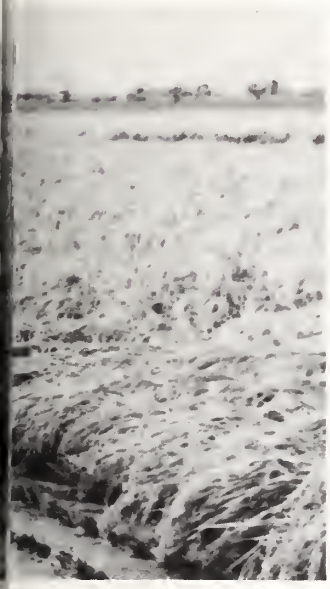
In calendar 1975, U.S. farm exports to Taiwan increased sharply and reached a record $565 million, largely owing to a buildup in stocks of soybeans and cotton as a hedge against possible shortages on the world market. U.S. agricultural exports to Taiwan during the first 9 months of last year were $346 million (final 1976 data are not yet available), slightly behind those of 1975, as Taiwan drew on available stocks.

Taiwan has shown remarkable progress in economic and industrial development during the past decade. Until the mid-1960's, Taiwan imported U.S. farm commodities under foreign aid programs, but reached the takeoff stage in economic development around 1966 and has since been purchasing all agricultural commodities on a commercial basis.

Taiwan's economy was relatively unscathed by the 1973 energy crisis and as a result showed impressive economic growth during the early 1970's and into 1976. (Most of Taiwan's oil is provided by Saudi Arabia, with which Taiwan has maintained cordial relations.) Foreign trade, which declined slightly in 1975 to $11.3 billion owing to the worldwide economic recession, has rebounded and during the first 6 months of 1976, Taiwan's total trade exceeded $7 billion, compared with $5 billion during the same period a year earlier. The Government expects total trade in 1976 to reach a record high of $15 billion.

The United States and Japan are Taiwan's two major trading partners. While Japan's share of Taiwan's imports has declined from 43 percent in 1970 to 30 percent in 1975, the U.S. share rose from 24 percent to almost 28 percent during those same years. At the same time, the share of Taiwan's

Below, harvesting rice in Taiwan. Right, Taiwanese worker poses with rice supplies. Taiwan's 1976 rice crop was moderately higher than that of 1975.



total exports to the United States declined from 38 percent in 1970 to 34 percent in 1975, as exports picked up to Australia, West Germany, Kuwait, and Saudi Arabia.

Taiwan is apparently acting to diversify its trade channels, recently purchasing wheat from Canada—not a usual source. It also has agreements to buy wheat from Australia and corn from South Africa and Thailand. A delegation from Uruguay, in Taipei in early November, received Taiwan's pledge to import sorghum, wheat, corn, and soybeans from Uruguay.

Wheat, corn, soybeans, cotton, tobacco, and cattle hides are the major U.S. items exported to Taiwan. Total shipment of these six commodities amounted to $524.4 million in 1975—almost 93 percent of total U.S. exports to Taiwan—compared with $388.3 million in 1974.

In order to have a steady and reliable foodgrain supply to meet its growing domestic needs, Taiwan recently signed a 5-year trade agreement with several U.S. private grain trading firms, which will help provide an even flow of wheat, corn, soybeans, and barley. Under this agreement, Taiwan intends to purchase a total of 2.85 million tons of wheat, 1.4 million tons of barley, 3.20 million tons of soybeans, and 2.75 million tons of corn between July 1976 and June 1981. The import quantities specified in the agreement are considered minimum targets and actual imports could be larger.

The United States has been and continues to be Taiwan's main supplier of **wheat.** During the past few years, U.S. wheat exports to Taiwan increased from 556,000 metric tons—valued at $30.8 million—in 1970 to a record 616,000 tons—valued at $116 million—in 1974.

TAIWAN'S 1975 wheat imports from the U.S. declined to 410,000 tons as the country used up stocks. However, it is likely that the trend of Taiwan's wheat imports will steadily increase as the country continues to industrialize and diets shift from rice to wheat.

Soybeans have traditionally been one of Taiwan's important food and feed crops. However, domestic production provides only 10 percent of Taiwan's soybean requirements. The balance has to be imported and nearly all soybean imports are of U.S. origin.

During the past 5 years, U.S. soybean exports to Taiwan have expanded significantly, from 586,000 tons—valued at $61 million—in 1970 to a record 912,000 tons—valued at $211 million—in 1975. Taiwan prefers to import U.S. soybeans owing to the high quality and reliability of supply.

Prior to 1960, roughly two-thirds of Taiwan's **corn** was consumed directly as food, with the rest used as livestock feed. Since 1962, however, corn used for livestock and poultry feed has increased so rapidly that Taiwan now uses most of its corn in this manner. (The dairy cattle herd has grown dramatically from 4,000 head in 1970 to 21,000 head in 1975, while chicken numbers rose from 14.8 million in 1970 to 24.7 million in 1975.)

Corn production is inadequate to meet the needs of Taiwan's expanding livestock industry and imports of corn have increased. Significant corn imports from the United States began in 1962 with 17,000 tons. Thereafter, U.S. corn shipments fluctuated between 2,000 and 46,000 tons a year, until 1971, when the United States replaced Argentina and, to some extent, Thailand, as a major supplier.

Since that time, U.S. corn exports to Taiwan have boomed, reaching a record high in 1975 of 608,000 tons, valued at $82 million. During January-September 1976, exports of corn to Taiwan were 601,000 tons—valued at $72 million—compared with 412,000 tons during the same period a year earlier.

The Government of Taiwan has launched a special program to increase livestock and poultry production in order to increase animal protein in the national diet. As the country's population and income continue to rise, demand for beef, milk, and poultry will expand, as will imports of corn for livestock feeding.

Taiwan's textile industry is another area undergoing expansion. The industry has shown considerable growth in the past few years—spindles increased from 588,000 in 1965 to almost 3.4 million in 1975, while the number of looms rose from 9,000 to almost 54,000 during the same period.

Very little **cotton** is grown in Taiwan, however, and almost all the cotton needed for the domestic textile industry must be imported. During the last 5

years, U.S. cotton exports to Taiwan increased from $51 million in 1971 to an almost record high of $123 million in 1975. As Taiwan's cotton industry grows, cotton from the United States will be imported in increasing quantities.

Taiwan also imports inedible tallow, nonfat dry milk, and baby food from the United States.

Taiwan's total agricultural imports have risen sharply during the last 5 years, jumping from $330.8 million in 1970 to $1.154 billion in 1975—a record level. Wheat, corn, soybeans, and cotton imports showed major gains in 1974 and 1975, and imports of all four commodities increased to a record high of $730.4 million in 1975.

Although the U.S. share of Taiwan's total exports has declined somewhat in the past few years, volume and value have increased at a steady pace. Between 1970 and 1975, total U.S. agricultural imports from Taiwan jumped from $50.5 million to $166 million. The unusually large import total for 1975 is the result of a heavy volume of sugar imports, which usually fluctuate between $10 million and $32 million, but in 1975 rose to almost $102 million.

OTHER MAJOR ITEMS imported by the United States in 1975 were canned mushrooms ($28 million), canned pineapple ($9.1 million), asparagus, water chestnuts, tea, and feathers.

Taiwan's total agricultural exports, not just those to the United States, have also been increasing rapidly in the past few years, from $255 million in 1970 to $829 million in 1975. High-priced sugar exports pushed the 1974 total to $882 million.

Industrialization—holding down cropland area and increasing agricultural commodity demand simultaneously—is the driving force behind Taiwan's expanding economy. Agricultural production, even though very efficient and modern, is declining, owing to loss of prime cropland to expanding industry and urbanization. As a result, Taiwan's production of wheat, corn, barley, cotton, and soybeans is increasingly inadequate to meet growing demand and avenues for U.S. exports of these commodities are expanding.

Taiwan's production of rice, one of the few crops not imported from the United States, totaled 3.7 million tons in 1976, just over the 3.4 million tons produced a year earlier.

World Weather

North America—The bitter cold that prevailed for weeks over the United States east of the Rocky Mountains has moderated, but the effects of the worst winter in decades linger. Drought threatens crop production in the Plains States, the Corn Belt and in the Western States, especially where irrigation is necessary.

USSR—Over the past month, winter grains in some areas of the European USSR have been subjected to alternating extremely low, then mild temperatures. Most of the area is under a good snow cover. Some winterkill of wheat probably occurred in areas of light or no snow cover. Precipitation was generally below normal in January over the European USSR, but early February brought moderate to heavy precipitation. Asiatic USSR continued to experience extremely cold temperatures, but most of the principal agricultural areas are under deep snow.

Asia—Temperatures persistently have been below normal over the People's Republic of China, adversely affecting winter crops. In India, precipitation generally has been sparse. Some northern wheat growing regions, however, received rainfall along with winter rice-growing regions in the extreme south and in Sri Lanka. In Australia, precipitation has been about normal along the eastern and southern coasts, but inland unirrigated crops and pastures have had a deficit. Severe drought conditions also are affecting crop development in the southwest.

Africa—Morocco has enjoyed generally excellent conditions for winter grains and pastures. Conditions are not quite as favorable in Algeria and Tunisia, although most areas received at least 2 inches of rain in January and more has fallen this month. In South Africa, crops are developing under generally good conditions.

South America—Conditions continue to favor good crop development in Brazil and Argentina. Crops and rangelands have rebounded in northeastern Brazil as substantial rains broke a serious drought in that area.

Europe—Mild, wet weather continued to dominate Western Europe generally over the past month, precluding any buildup of snow cover while enhancing soil moisture, which was badly depleted last summer. Precipitation for the region generally has been normal or slightly above. January precipitation in Spain was 50 to 100 percent above normal, but Greece had less than 50 percent of the norm. In Eastern Europe, temperatures have been above normal, but less than average.

Cocoa Bean Production Down, Prices at Record High

New York spot Accra cocoa bean prices averaged $1.10 per pound in 1976, compared with the 1975 average of 75 cents. January 1977 spot prices averaged $1.76, and prices were over $2 per pound in early February. Tight supplies and high prices are expected to continue at least until the new crops are harvested this fall.

The full impact of higher world cocoa bean prices has yet to be reflected at the retail level. As manufacturers dip into inventories of higher priced cocoa beans, retail cocoa and chocolate prices are expected to rise sharply in the coming months.

World cocoa bean production for 1976/77 is now forecast at 1,411,000 tons, down about 7 percent from the 1975/76 harvest of 1,520,100 tons. Prices remain high.

Reflecting unfavorable growing conditions, African production is expected to reach only 868,700 tons, off 13 percent from that of a year earlier. However, because of improved crop prospects for Brazil and Ecuador, South American production is now estimated at 390,100 tons, 5 percent over the 1975/76 outturn of 371,000 tons.

Production data in thousand tons for 1976/77 (1975/76 in parentheses) for the major producing countries are: Ghana 320 (397), Brazil 257 (257), Ivory Coast 240 (231), Nigeria 160 (217), Cameroon 90 (96), and Ecuador 80 (64).

World cocoa bean grindings in 1977 are forecast to fall well below the 1976 level of 1.5 million tons. A stock drawdown is likely this year, following a balanced supply-demand position in 1976.

U.S. imports of cocoa beans and related products in 1976 were valued at a record high of $594.7 million, up from 1975 imports of $466.1 million. Import values in 1977 also will be high.

Japan's Mikan Crop Down, Citrus Imports Slightly Up

JAPAN'S MIKAN (satsuma mandarin) crop is expected to drop 13 percent in 1976/77, owing to poor growing conditions. Lower mandarin output also means lower supplies of juice—a product for which there is a growing demand. Although the Government of Japan has not increased the 1976/77 general quota for imported orange juice to supplement lower mikan juice output, U.S. suppliers and Japanese importers have shown considerable interest in this possibility.

The United States continues to be Japan's top supplier of citrus and imports of U.S. oranges, grapefruit, and lemons are climbing again, despite the fact that fungicide issues have not been resolved.

The 1976/77 mikan crop—Japan's predominant citrus fruit—is estimated at 3.2 million metric tons, compared with 3.7 million in 1975/76. Low temperatures and lack of sunshine are responsible for the shortfall, which is expected to cut into the availability of mikans for processing, particularly for juice. Roughly 80 percent of the mikan crop is marketed fresh, but the quantity processed into juice has been increasing rapidly.

Fresh mikan exports are anticipated to increase slightly in 1976/77 to 19,000 tons from 18,726 tons in 1975/76, when the top customers were Canada (16,903 tons) and the United States (818 tons). In 1976/77, the United States is expected to import 900 tons of fresh mikans, while Canada takes 17,500 tons.

Japan's production of concentrated mikan juice (5:1 concentrate basis) during the current season is expected to drop sharply to roughly 40,000 tons, owing to the anticipated decline in fresh mikan production. This would be an 18 percent decline from the 48,650 tons of concentrated juice produced from the 1975/76 crop. Since the 1976/77 production of mikan concentrate is expected to be smaller, the industry anticipates the domestic supply of mikan juice during 1977 to be considerably short.

Although there is a market for oranges and orange juice to supplement Japan's production, U.S. shipments are inhibited by quotas estimated at totals of 22,000 and 1,000 tons (5:1 concentrate) per year, respectively.

Although no final data for 1976 are available on Japan's exports of canned mikan sections, shipments during January-August 1976 were 32,492 tons, of which 16,066 tons were shipped to the United States. The United States was the leading export market for Japanese canned mikan sections in 1975, accounting for 40 percent—21,666 tons—of total exports of 53,735 tons.

In view of a smaller volume of mikans forecast for marketing during the current season, the industry anticipates that the wholesale prices for the 1976/77 crop will be higher than those of the previous year.

Reportedly, the basic export prices for the 1976/77 season will be $2.30 per case f.o.b. to Canada and Alaska and $2.60 to other parts of the United States. The higher export price to the United States—except for Alaska—reflects in part the extra costs incurred in preparing shipments in compliance with the various USDA plant quarantine regulations.

In other citrus production, Japan's total crop of summer oranges in 1976/77 (to be harvested in February-May 1977) is estimated at 370,000 tons, up 5.5 percent from the 350,700 tons harvested in the 1975/76 season and just under the 1974/75 harvest.

Japan's navel orange production, which is relatively small, is expected to be roughly 15,000 tons, roughly the same as the 14,900 tons harvested in 1975/76.

The United States continues to supply practically all fresh citrus fruit imported into Japan. Japan's current prohibition on residues of TBZ and OPP fungicides has held exports of U.S. grapefruit and lemons at levels below those of the calendar 1974 season (142,890 tons of grapefruit and 92,944 tons of lemons during that year). However, imports of lemons during calendar 1976 were expected to be significantly higher, compared to the low 1975 levels, while grapefruit imports were expected to rise slightly.

Imports of grapefruit during January-September 1976 totaled 135,011 tons, up slightly from the 131,730 imported during the same period of 1975. Total imports of grapefruit in calendar 1976 are forecast at about 150,000 tons. Imports of U.S. grapefruit during the first 9 months of 1976 totaled 124,636 tons, compared to 118,236 tons during the first 9 months of 1975.

Lemon imports are recovering from the sharply dropped level of 63,805 tons imported from the United States in calendar 1975. Shipments during January-September 1976 had already reached 67,415 tons. Based on the import performance of the first 9 months, total lemon imports in 1976 were expected to reach 90,000 tons.

Imports of U.S. oranges by Japan have been slowly climbing. Exports during January-September 1976 of 21,008 tons already exceed total 1975 export shipments of 20,222 tons.

The rate of decay of imported citrus continues to be above normal because of Japan's ban on importing citrus with fungicide residues. However, decay in lemon exports (usually most affected by spoilage, owing to high susceptibility during the summer) was apparently lower this year because of the remarkably strong U.S. crop.

—Based on a dispatch from
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Orchard workers picking ripe mandarins, Japan's predominant citrus fruit.

Part II—Mediterranean agreements

The EC and Its Special Third-Country Partnerships

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Last week, Foreign Agriculture looked at EC trading arrangements with members of the Lome Convention as part of a three-article series on special EC trading partnerships. The Mediterranean countries covered this week include two prospective EC members—Greece, which is now negotiating entry into the EC, and Spain, which hopes to join by 1980.

THE European Community in 1972 formulated what it calls the global Mediterranean policy for non-EC countries bordering the Mediterranean Sea. The aim of this approach was to harmonize various existing trading arrangements and agreements of association into a coherent system and to balance out economic and political relations with third countries often in conflict with one another.

As originally envisioned, the global approach would have led to the creation of a free trade area encompassing the entire Mediterranean Basin, with some of the countries later joining into a customs union with the EC and some becoming full members. Some observers even foresaw the establishment of an economically integrated Mediterranean area—for the first time since the days of the Roman Empire—with the EC and the Mediterranean countries trading primarily or exclusively among themselves.

It was recognized from the outset, however, that agriculture would present special problems and that restrictions on agricultural trade would not be completely eliminated. For example, fruits, vegetables, olive oil, and several other agricultural products from non-EC Mediterranean countries compete directly with crops grown in Italy and southern France. Also, vast political and economic differences were expected to restrict full integration of the Mediterranean nations. The nations: Greece, Turkey, Algeria, Morocco, Tunisia, Egypt, Syria, Jordan, Lebanon, Israel, Spain, Cyprus, and Malta.

These countries together accounted for around $3 billion—or 11 percent—per year of the EC's agricultural imports from third countries during 1973-75. During that period, fruits and vegetables and their preparations made up about two-thirds of the total value of Mediterranean agricultural exports to the EC, with an annual average of $1.95 billion; fats and oils were a poor second, with $262 million, or 9 percent of the total. Beverages, including wine, averaged nearly $230 million. followed by cotton and other natural fibers with $183.5 million; unmanufactured tobacco, $83.5 million; and animal feed, $73.5 million. Cereals were $33.3 million, and oilseeds, $11 million.

Agricultural products, in turn, account for about one-fifth of total exports from the Mediterranean countries to the EC.

The global Mediterranean approach was never meant to impair the Common Agricultural Policy (CAP) of the EC, nor to weaken the competitive position of farm producers in southern France and Italy. The new trading arrangements between the EC and the Mediterranean countries do not deviate from this tenet.

In fact, negotiations with some North African countries and implementation of the agricultural concessions to Israel (after an agreement with Israel had been signed) were delayed, partly because producers in the southern area of the EC felt that they would have to bear the burden of preferences granted to the Mediterranean countries. These objections were withdrawn in the summer of 1975 after the EC adopted a common system of import controls over processed fruits and vegetables and wines from all third countries.

Under this system, the importation into the EC of so-called sensitive products requires import certificates (similar to licenses) and a security deposit. Products to which these requirements apply include tomato concentrates and certain other tomato products, canned peaches, mushrooms, pears, peas, french beans, and raspberries. Tomato concentrates are also subject to a minimum import price.

Quantitative controls over imports of citrus juices other than grapefruit juices will be retained by the national governments, at least until the end of 1977. By that date, the EC plans to have a common policy on virtually all processed fruits and vegetables.

It appears now that EC-Mediterranean economic relations are not evolving exactly along the lines originally envisioned by the global approach. The agreements already negotiated and those still under negotiation have not developed in a comparable and identical manner.

By and large, however, economic relations between the EC and the Mediterranean area

are drawing closer. Also, the Mediterranean countries' economic ties and formal contractual arrangements with the EC are broader and stronger than those with other Western countries. The United States and other third countries have raised objections within the General Agreement on Tariffs and Trade (GATT) to those aspects of the Mediterranean Policy that result in restrictive trade practices.

The agreements with Algeria, Morocco, and Tunisia have stopped short of setting up a true free trade area. Nevertheless, far-reaching preferences have been granted to the goods exported from these North African countries to the EC. In other cases (for instance, Greece and Spain), integration with the EC is moving faster than originally planned.

In general, all these agreements also contain concessions for industrial exports and provide for financial aid from the European Investment Bank (mostly as loans) and for industrial cooperation.

Association Councils have been set up by the EC and each of the countries having an agreement with the EC. These Councils generally operate at the ministerial level and meet at regularly scheduled intervals to discuss all matters of common interest, including trading arrangements.

Greece and Turkey. Greece has been an Associate Member of the EC since November 1962. The association agreement called for a full customs union between Greece and the EC and complete harmonization of Greece's agricultural policy with that of the EC by 1984. Achievement of full Greek membership was left for some undetermined future date, or for the time when Greece's economic development would make membership feasible.

POLITICAL events in Greece have altered the original timetable for that country's economic integration with the EC. During 1967-74, Greece was ruled by a dictatorial government. Although the tariff-cutting process proceeded on schedule in those years, Greece received no aid from the EC and virtually no progress was made toward harmonization of Greece's agricultural policy with that of the EC.

In 1975, after democratic rule had been restored, Greece decided to align itself more closely with Europe and applied for full membership in the EC. The EC responded favorably, in spite of some reservations on the economic desirability of such membership.

Entry negotiations began formally in July 1976. The Greeks hope that the talks can be completed by the end of 1977 and that by 1984 Greece can be a full member of the EC, rather than being joined to the EC in a customs union, as in the original plans.

Through the gradual implementation of the present agreement of association, duties have been abolished on all Greek industrial exports to the original members of the EC (EC-6) and on most of Greece's nonfarm imports from the EC-6. Although certain amounts of Greek olive oil are subject to the variable levy, most of Greece's major agricultural exports to the EC pay no duty, and tariffs on trade between Greece and the three new members of the EC (the EC-3, or the United Kingdom, Ireland, and Denmark) have been almost completely phased out.

There is now no EC common external tariff (CXT) on imports of Greek fruits and vegetables and their preparations. However, EC growers of fresh citrus (except grapefruit), apples, pears, grapes, peaches, plums, cherries, tomatoes, and cauliflower are protected from Greek imports by the EC "reference price," which is in fact a minimum import price and involves payment of a compensatory tax. Greek tomato concentrate must observe the EC minimum import price, while Greek unmanufactured tobacco enters the EC free of duty. Olive oil is exempt from the fixed component of the import charge.

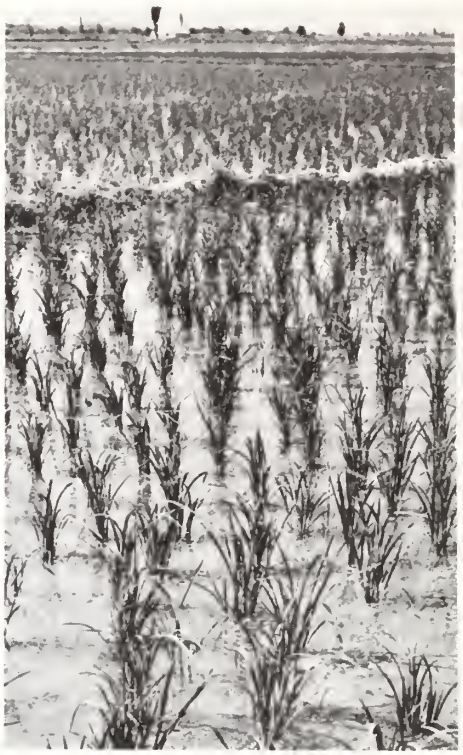
Greece's entry into the EC should strengthen the position of those who advocate broader EC protective measures for Mediterranean-type crops—to the disadvantage of third-country suppliers. On the other hand, the competitive position of the United States vis-á-vis Greece in the EC is already adversely affected by the zero duty rate on Greece's principal exports to that market—fruits, vegetables, and tobacco. In this respect, U.S. trade interests should suffer relatively little additional damage from full Greek membership in the EC.

Corn, soybeans, and soybean meal are the principal U.S. farm exports to Greece. Although the EC is a large importer of these products, future U.S. sales to Greece may be impaired by CAP regulations since the EC has permanent and direct constraints on imports of feedgrains and has in the past imposed indirect, temporary constraints on imports of protein feed.

An association agreement is also in effect between Turkey and the EC. This too calls for a full customs union (by the mid-1980's) and eventual membership.

Preferences enjoyed by Turkish farm goods in general are not as broad as those granted to Greek commodities or, in some cases, to those of other Mediterranean countries. However, arrangements affecting agricultural products are reviewed every 2 years.

In recent months, especially from the time



Top: Paddy of Spanish rice, which would be a bigger export competitor with U.S. rice if Spain joined the EC. Above, vegetables in Israel, which enjoys reduced duties on some vegetable exports to the EC.

Below, drying Greek oriental tobacco—a top Greek export to the EC. Bottom, sorting Turkish peanuts, which benefit from reduced EC duties.

when Greek membership in the EC become virtually certain, there has been much discussion and arguing over the so-called relaunching of the EC-Turkish association. The Turks are seeking to secure more favorable terms in the agricultural sector as well.

At present, Turkish exports entering the EC duty free include unmanufactured tobacco, raisins, and fresh or dried figs in containers of less than 15 kilograms. Preferences of 40-60 percent of the CXT apply to fresh citrus fruits, with fresh oranges paying 50 percent of the tariff. Substantial tariff reductions also apply to a few canned vegetables and to roasted nuts, including peanuts.

In December 1976, the EC and Turkey agreed on additional concessions on EC imports of several Turkish products, including grapes, citrus fruit, several other fruits and vegetables, certain categories of meat, and olive oil.

Maghreb countries. In the spring of 1976, the EC signed virtually identical agreements with each of the three Maghreb countries —Algeria, Morocco, and Tunisia—which are former French territories.

These new agreements, which are of unlimited duration, supersede and expand previous trading arrangements and cover other sectors of the economy as well as trade. The trade provisions became operative on July 1, 1976.

At present, the EC receives no reciprocal preferences.

The new agreements provide tariff concessions on 80-90 percent of total Maghreb farm exports to the Community, but some of these products remain subject either to import calendars (e.g., fresh vegetables), or import quotas (quality wine), or most observe the EC reference price (citrus fruits and wine in bulk). In other cases (fruit salads), the marketing boards of the Maghreb countries have agreed to restrict exports to the EC.

Tariff reductions for some products are as follows: Oranges and mandarins, 80 percent; orange and grapefruit juices, 70 percent; peeled canned tomatoes, 30 percent; preserved or prepared apricot halves, 50 percent; and fresh table grapes (in winter months), 60 percent. Other crops such as dates, cashew nuts, bay leaves, and some dry pulses enter duty free.

Mashrek countries. This group consists of Egypt, Syria, Jordan, and Lebanon. On October 15, 1976, the EC completed negotiations with Egypt on an agreement to replace and broaden a preferential trade agreement that was to have run through October 1978. Similar arrangements were concluded with Syria and Jordan in early November. Exploratory talks for a similar agreement with Lebanon have begun.

Effective July 1977, the EC will eliminate all duties and equivalent charges on Egyptian industrial goods. For cotton thread and fabrics, phosphate fertilizer, and refined petroleum products, the EC will set limits on amounts that can enter duty free.

For a wide range of agricultural products, the EC will give Egypt tariff reductions of 40 to 80 percent during the EC nongrowing season. Products benefiting from some form of tariff concession include fresh oranges and mandarins (60 percent reduction), lemons (40 percent reduction), garlic, onions, tomatoes, new potatoes, certain dry legumes, peppers, and a variety of other vegetables.

IN ADDITION, the levy on imports of rice is reduced by 25 percent on amounts of up to 32,000 tons per year. In the past, a similar concession on rice has been of little help to Egypt, as exports of this commodity have been negligible. They are expected to remain so.

The usual safeguards against disruption of the CAP also apply. These include retention of minimum import prices and the need for Egypt to impose export charges to match the amount of reduction in the variable import levy granted by the EC.

By and large, trade concessions granted to Syria and Jordan are similar to those accorded to Egypt, but fewer agricultural products are involved in the case of Syria.

Israel. The current trade agreement between the EC and Israel has been in effect since July 1975. The EC duty on industrial products from Israel will be eliminated by July 1, 1977, while most Israeli duties on industrial imports from the EC will be phased out in 14 years. Israel will also grant reductions on some food items mostly condiments and preparations (that do not compete with principal U.S. farm exports to Israel).

The tariff on Israeli oranges exported to the original six EC members is reduced by 60 percent; that on oranges sold to the EC-3 (the United Kingdom, Ireland, and Denmark), by 80 percent. Seasonal reductions of 40 to 60 percent apply to carrots, onions, sweet peppers, certain other vegetables, melons, and watermelons. Avocados pay 20 percent of the tariff; canned (peeled) tomatoes, okra, and cabbage, 70 percent; orange juice and grapefruit juice, 30 percent. The reduction on many other fruits and vegetables varies from 30 to 80 percent.

Spain. A preferential two-stage trade agreement between Spain and the EC became effective October 1, 1970. The first stage was to last 6 years, and new negotiations were to be held during that period to deal with the second stage and the transition from first to the second.

Continued on page 12

Philippine Flue-Cured And Cigar Leaf Output To Be Up Again in '77

The Philippine Virginia Tobacco Administration (PVTA) estimates that the 1976 crop of Virginia (flue-cured) tobacco at a record 47,952 tons farm-sales-weight (42,198 tons redried weight), or 42 percent larger than the 1975 crop. The figure is based on the amount purchased by private dealers.

The increase is attributed to both larger area and higher yields. The quality of the 1976 crop is reported as excellent.

Because of the problems experienced in marketing last year's record crop, a substantial reduction in area may be in order for 1977. However, farmers apparently believe that new PVTA trading rules will result in higher tobacco prices, and the reduction in area, therefore, is only about 10 percent.

Tobacco stands are in better condition than at this time last year. Assuming normal weather, flue-cured tobacco production this season could approach last year's record level, despite the drop in area.

The final estimate for the 1976 native or cigar tobacco production is 33,000 tons, nearly double the 18,000 tons produced in 1975. As in 1975, the 1976 crop was adversely affected by storms that struck during late May and destroyed 20 to 30 percent of cigar tobacco production in the Cagayan Valley, which normally accounts for over 50 percent of the crop.

There has been a slight increase in area for 1977, but heavy rains in late November and early December caused some rotting and disease in seed beds in the four major producing provinces. However, production this year should equal last year's output.

Burley production suffered the most from the May typhoon, which destroyed 40 to 50 percent of the crop. Production in 1976 is estimated at only 7,000 tons harvested from 9,000 hectares. (One hectare equals 2.471 acres.) The quality of both native and burley tobacco was reported as ordinary to poor.

For 1977, burley production is estimated at 13,000 tons. The production of cigar wrapper leaf in 1976 remained stable at about 550 tons from an estimated 1,000 hectares. Little or no change is expected in 1977.

Turkish tobacco production in 1976 totaled only 500 tons, compared to about 1,000 tons in 1975. Production is expected to increase this year to about 700 tons.

Brazil Seeks Firmer Castor Oil Price, Output

The *Brazil Herald* reported on January 28 that Brazil, through the Coordinating Commission for the Export of Castor Oil (COCEOM), is seeking to stabilize both production and prices of castor oil.

Sharp fluctuations in world prices have in the past caused serious problems of overproduction which were accentuated by lack of storage facilities for obth castor beans and oils.

All exports of castor oil must now be channeled through COCEOM, which allocates export quotas by mill crushing capacity. COCEOM's goal is to provide a satisfactory return to farmers to encourage a steady increase in the area under cultivation, without creating surpluses.

Following the disastrous crop of 1972, which sent castor oil prices soaring to as high as $1,500 per ton, a bumper crop in 1974 caused prices to plummet to only $569 in 1975. Shifts to more profitable crops and severe drought resulted in a poor 1976 castor bean harvest of only 160,000 tons. This, along with speculation that India, the world's second largest producer of castor oil, will have a smaller-than-expected crop in 1977 has led to an upturn in world castor oil prices to more than $800 per ton.

With Brazil providing over half of the world supply of castor oil, it seems paradoxical that it would exert pressure to keep prices down. Nevertheless, COCEOM, fearful of the reemergence of the overproduction problem, states it would like to stop the price increase now, regardless of loss in profit in the short term. The United States, the world's largest buyer of castor oil, imported 54,000 tons in 1976, almost entirely from Brazil.

EC Vice President Meets With Secretary Bergland

Secretary of Agriculture Bob Bergland met last week with Finn Olay Gundelach, Vice President of the European Community, responsible for agriculture. Vice President Gundelach was in Washington at Secretary Bergland's invitation for an informal "get acquainted" session.

The meeting was exploratory and preliminary to further talks at a later time. Mr. Gundelach was elected to his present position in early January. He is the highest ranking agriculture official of the Community, which in the current fiscal year (October-September) will purchase an estimated $6.4 billion in U.S. farm commodities.

The Secretary is expected to discuss agricultural matters of mutual concern with a number of other world leaders in Washington in coming months.

Hungary May Suspend Soybean Expansion

Hungary is having second thoughts about continued expansion of soybean area. A recent article in a Hungarian economic publication (*Vilaggazdasag*, Nov. 10) indicates that some Hungarian agricultural officials believe it would be to the country's advantage to expand corn production and hold soybean area at or near the 40,000-50,000-hectare level.

"On the assumption and expectation that world market prices between corn and soybeans will maintain a ratio of 1:2, the argument for giving up soybean production in favor of corn seems to be justified," the article states.

"Many believe that this situation will hold for the next 3-5 years under two assumptions, either of which is difficult to reject. One is that relative prices may not change much in favor of soybeans. The other is that Hungary will continue to be able to sell its corn for hard currencies," the report continues.

Hungary's limited oilseed crushing capacity is another factor tending to inhibit any continued expansion of the country's soybean area. The article states that Hungary cannot satisfactorily process a larger volume of soybeans even when a new processing plant at Martfu begins operation sometime in 1977.

Argentine-Chilean Wheat Pact May Cut U.S. Exports to Chile

By MAX F. BOWSER
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THE SIGNING OF an economic cooperation agreement on November 13 between Chile and Argentina will dampen the possibility of increasing U.S. wheat exports to Chile for the next few years, although Chile will probably make some P.L. 480 purchases later in 1977.

The United States dominated the Chilean wheat import market in the last half of 1976, with shipments for the year reaching about 700,000 metric tons. But recent low prices for Argentine wheat, plus the agreement to sell 500,000 tons of wheat to Chile annually in 1977-79, almost guarantees Argentina a larger share of the Chilean market in 1977 than in 1976. U.S. wheat exports to Chile are expected to tumble to about 300,000 tons in the current year.

The projected 500,000-ton shipments by Argentina compare with 400,000 tons shipped in 1976, 141,000 tons in 1974, and 72,500 tons in 1975.

Usually insufficient to meet Chile's requirements, the size of Chile's current wheat crop is expected to produce a wide gap between output and usage of about 800,000 tons in 1977.

Most of Chile's wheat transactions in 1977 will be on a commercial basis because the level of the U.S. P.L. 480 Title I program to finance imports of wheat has been reduced from about $49 million in fiscal 1976 to $15 million in the current fiscal year because of U.S. legislative restrictions.

Until mid-1976, all Chilean wheat was imported through a Government buying agency—Empresa de Comercio Agrícola (ECA)—which sold foreign grain to millers and other end users at a price covering all import and handling costs.

In 1975, private Chilean interests were allowed to import grain directly, but no imports were made until May 1976. As of the end of 1976, however, sizable private imports had been made, almost all from the United States. In fact, private trade sources have indicated a preference for U.S. wheat, provided the costs are competitive.

There are essentially two main groups of millers importing wheat into Chile. The UNIMOL group is comprised of larger sized millers, mainly from the Santiago area. This group owns a substantial interest in the Banco Sud Americano, through which its members were able to obtain credit at interest rates of about 6.2 percent for 180 days to finance their imports. Some U.S. banks also provided 6-month credits through U.S. exporters.

Consisting of smaller sized millers located outside the Santiago area, the second group, CORMOL, financed some wheat purchases in the United States with 7.1-percent, 180-day loans, made by a U.S. exporter. Some other exports were made with loans made by several other U.S. exporters for 7 percent for 180 days.

Since December 1972, the Commodity Credit Corporation has offered lines of credit for 3 years with equal annual payments of principal plus interest. CCC interest rates were 6⅛-7½ percent to 9½-10½ percent between October 1972 through July 1974. Rates

Wheat Assoc. Establishes Baking School

A BAKING SCHOOL recently inaugurated in Djakarta, Indonesia, could boost consumption of wheat products, and in turn imports of U.S. wheat.

Development of the school was announced by R. Alan Hunt, regional director of Wheat Associates, U.S.A. (WA), following the signing of an agreement in Djakarta. The bakery school will be operated by Trisakti University in a new building on the university's campus in Djakarta. The first course is scheduled to begin March 28, 1977 and will present a full range of baking subjects.

Present at the signing ceremony was a Board of Directors team from Western Wheat Associates, U.S.A. Dr. L. Mulyatno, director of the Trisakti Hotel and Tourist Academy, signed on behalf of the university; Hunt signed for Wheat Associates.

Sponsoring the school, along with Wheat Associates, are several flour mills located in Indonesia, a bakers' organization, several equipment manufacturers, as well as other firms connected with the wheat milling industry. The baking school is similar to those in Japan, Korea, Taiwan, the Philippines, and India, in whose founding Wheat Associates played a part.

The two men who will be responsible for the school's program visited the Wheat Associates-sponsored schools in Manila and Taipei last September under a WA program to get training in both practical and fiscal operational methods. Two instructors for the school will be trained in Manila.

A rapidly expanding market for imported wheat, Indonesia purchased 835,000 tons metric .in 1975/76, of which 356,000 tons came from the United States. By 1982, it is estimated imports could approach 2 million tons, of which half could come from the United States. All Indonesian wheat imports are milled in the country's three flour mills. The 1,650,000-ton annual capacity of these mills is presently underutilized.

About 60 percent of Indonesia's flour goes into the production of baked products, including breads, cookies, and other pastry items. The balance is largely used for noodles.

The School of Baking is a key part of Wheat Associates' program to promote sales of U.S. wheat to the important Indonesian market, and is an element in that group's overall promotion program in Asia as a USDA cooperator, acting on behalf of U.S. wheat producers.

are now 6-7 percent for 1 year or less. However, few Chilean wheat importers used CCC credit since they believed the interest rates were too high (at least until the recent CCC reduction), compared with the more favorable rates available from the U.S. grain companies and the Banco Sud Americano.

The P.L. 480, Title I agreement was signed by Chile October 29, and calls for the purchase of about 103,000 metric tons of U.S. wheat for shipment in fiscal 1977. While it was thought this delivery would occur during the first quarter of fiscal 1977, a change in the supply situation will make a June-July delivery more likely.

The Government of Chile had maintained the producer wheat price for the past 6 months at a significantly higher level than world prices. But given the right to import directly, private trade sources bought substantial quantities of foreign wheat at lower prices than they could from Government wheat supplies. As a result, ECA is having trouble moving its current stocks. Also, the millers may have bought more of the lower-priced imported wheat in 1976 than they needed, and so Chilean wheat stocks were higher than normal toward the end of 1976.

Furthermore, ECA wheat is also being held by flour millers who must set aside and store grain stocks equivalent to about 2 months' use because ECA lacks adequate facilities. At the end of the year, this required storage also was full.

Toward the end of 1976, the Central Bank withheld approval of wheat imports until early January 1977. It apparently believed that with the current high level of wheat stocks, the expected size of the domestic crop—usually some 750,000 tons—(harvest of which began in December), the recent agreement with Argentina, and the P.L. 480 grain commitment from the United States, Chile will have ample supplies until next July or August.

Chile's present import strategy is to delay making foreign wheat purchases until the size of the current crop is known. But in any event Argentina will benefit most since it sells its wheat at about $10-$15 per ton cheaper than U.S. wheat and has the commitment to deliver a half million tons of wheat to Chile annually. Importers in Chile also hope that by deferring their P.L. 480 wheat imports until later in the year, U.S. wheat prices may drop further, enabling larger volumes of wheat to be bought for the same cost.

A net exporter of wheat in the 1920's, Chile is now a net importer, with foreign purchases averaging 937,000 tons during the 1972-76 period. During these same years, output averaged 816,000 tons. Total consumption (or disappearance) peaked at 1.9 million tons in 1972 and 1973, but averaged only 1.75 million tons over the full period. Thus, imports have supplied an average of 53 percent of Chile's wheat consumption needs since 1972.

In 1967-71, wheat imports averaged 365,000 tons, while production averaged 1.26 million tons per year. During that period, wheat consumption averaged 1.6 million tons a year, and wheat imports accounted for an average of 23 percent of Chile's total wheat consumption.

Thus, while average annual consumption of wheat has been about 1.68 million tons, average annual output has fallen by about 446,000 tons between 1967-71 and 1972-76. This has resulted in a large wheat production deficit that will probably continue for at least the next few years.

Chile's production problem is mainly one of yield rather than the size of the planted area. Although the area planted to wheat in 1972—at 534,000 hectares—was down some 193,000 hectares from the 1970 level, during the past 2 years it has stood at about 690,000 hectares, and is estimated to be about 650,000 hectares for the 1977 crop. For the period 1972-76, wheat yields have averaged only about 12.5 quintals per hectare, whereas during 1967-71 the average yield was 16.6 quintals per hectare.

Dr. L. Mulyatno, center, Director of the Hotel and Tourist Academy of Trisakti University in Djakarta, signs agreement for the development of a Wheat Associates, U.S.A.-sponsored School of Baking in Indonesia. At left is Regional Director Alan Hunt, who signed on behalf of Wheat Associates. Others pictured are: seated, Herman Diener, executive director of the Academy; standing, left to right, Verle Lanier, U.S. Agricultural Attaché to Djakarta; Gene Croghan, member of visiting WA Board of Directors team from Montana; and Pudjono H. Prakoso, Rector, Trisakti University.

EC Partnerships

Continued from page 8

Gradual establishment of a free trade area was the ultimate aim of the original treaty. So far, Spain has steadily reduced duties on industrial goods from the EC and has agreed to buy up to 30 percent of its butter imports and up to 90 percent of its other dairy imports from the EC.

The EC has cut its import tariffs on many Spanish industrial and agricultural products. It has reduced by 40 percent the duty on Spanish citrus fruit and by 50 percent the duty on several fruits and fruit preserves, vegetables, a number of nuts, fresh grapes (during specified months) and, up to certain amounts, a number of Spanish wines.

The terms of the present EC-Spain agreement do not yet apply to trade between Spain and the EC-3. Negotiations for a new arrangement between Spain and the EC have been held—with various interruptions, caused mainly for political reasons—since July 1973. Some delay was also caused by Spain's position that elimination of its duty on EC industrial products should be conditional on free trade for Spanish farm products.

In early 1976, after political power had been transferred from Generalissimo Franco to King Juan Carlos, Spain indicated that it was no longer interested in a mere free-trade association, and that it would seek full membership in the EC. As a result, negotiations between the two parties have been reopened with the primary aim of extending the present agreement to the EC-3.

The Spanish Government has indicated that Spain considers itself a future member of the EC and anticipates being admitted by 1980. It seems to be commonly accepted that Spain will join the EC in the not-too-distant future, provided that Spain adopts a democratic form of government. However, continuation or exacerbation of the EC internal problems of floating currencies could slow down the process of Spain's admission.

U.S. exports of farm products to Spain consist mainly of soybeans, soybean products, and corn, which are also imported in large quantities from the United States by EC members. The major impact of Spain's entry into the EC would be felt primarily by U.S. exporters of citrus, almonds, and rice. If Spain joins the Community, Spain's exports of these products to the EC-9 will undoubtedly grow—and at the expense of products from third-country suppliers, including the United States.

Other countries. Malta and Cyprus have association agreements with the EC, with provisions for the gradual establishment of a customs union by the mid-1980's. Exports of farm products from Malta and Cyprus are of necessity small, owing to the size of the two countries. Tariff reductions of 40 to 70 percent are now granted by the EC to Malta's principal exports, including early potatoes, fresh oranges, onions, cut flowers, and peppers. Concessions of 30 to 80 percent are offered to Cyprus on citrus fruit (the largest reduction being for grapefruit), potatoes, carrots, artichokes, tomatoes, strawberries, and several other fruits and vegetables.

Yugoslavia and Portugal are often included among the countries to which the EC Mediterranean policy applies, even though Portugal does not border on the Mediterranean. However, EC relations with these two countries are reviewed in the third and last article of this series, in which Yugoslavia is included with Eastern Europe and Portugal with the European Free Trade Association.

The two remaining Mediterranean countries, Albania and Libya, have no contractual arrangements with the Community.

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